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A Letter from the Managing Editor

Peter C. Earle

People seem to be curious about what economists *actually* do. (I suppose it's a mystery to them that despite a terrible track record where predictions are concerned, we somehow remain gainfully employed.) And so it was that a friend recently asked me what I've been working on. I mentioned that, among other projects, I was in the midst of editing a book covering the basics of the classic gold standard to mark the 50th anniversary of the Nixon Shock. (As AIER supporters are no doubt aware, US President Richard Nixon suspended the convertibility of the dollar into gold on August 15, 1971.)

He nodded, summarizing: *So a history book, then*.

It was an off-the-cuff comment, but it lingered in my mind. Are the functions of the classic gold standard a historical curiosity? Do the workings of the classic, pre-WWI gold standard amount to commodity hagiography of a sort?

As the topic of this edition of the Harwood Economic Review expresses: absolutely not. The spike in prices of certain goods and services over the past year, in addition to the explosion of financial asset prices, strongly suggests that inflation has made its long awaited return. Yes, some of what is being seen has to do with shortages, supply chains gone slack, and other effects of pandemic response policies. Some of the current price distortions are likely transitory, but others may linger and perhaps worsen.

What has been left in the past—what *is* history—is not the gold standard but the economic sense that attended it. A sense that instinctively recognizes that bridging the gap between scarce resources and unlimited human wants requires nothing less than sound money. A sense possessed by farmers and tradesmen with limited schooling five or six generations ago, yet is today virtually lost among individuals with lofty degrees and the highest professional credentials.

When Nixon closed the gold window, he promised that the suspension of dollar convertibility was temporary. I view the last fifty years as a monetary interregnum: a period during which a global experiment extending throughout not only world economies, but the whole of commerce, academia, society, and culture is taking place. Gold will return to monetary preeminence not because it can or should, but because it must. Nixon's *temporary* suspension will be exactly that; not because he said so, but rather because at some point there will be no other road forward.

Whether you are a long-time supporter of the American Institute for Economic Research or a first-time donor, we thank you. I thank you.

Peter C. Earle
Managing Editor, *Harwood Economic Review*

Assessing Potential for Higher Inflation

James L. Caton

While I strongly expect that we will see higher than expected inflation during the approaching cycle, we are still in the early stage of recovery. Inflation expectations have, so far, not lifted to a level that we would deem above a short-run target of around 2.5%-3%. Today, I will present signs to watch for that may indicate if a significantly higher level of inflation is, in fact, approaching.

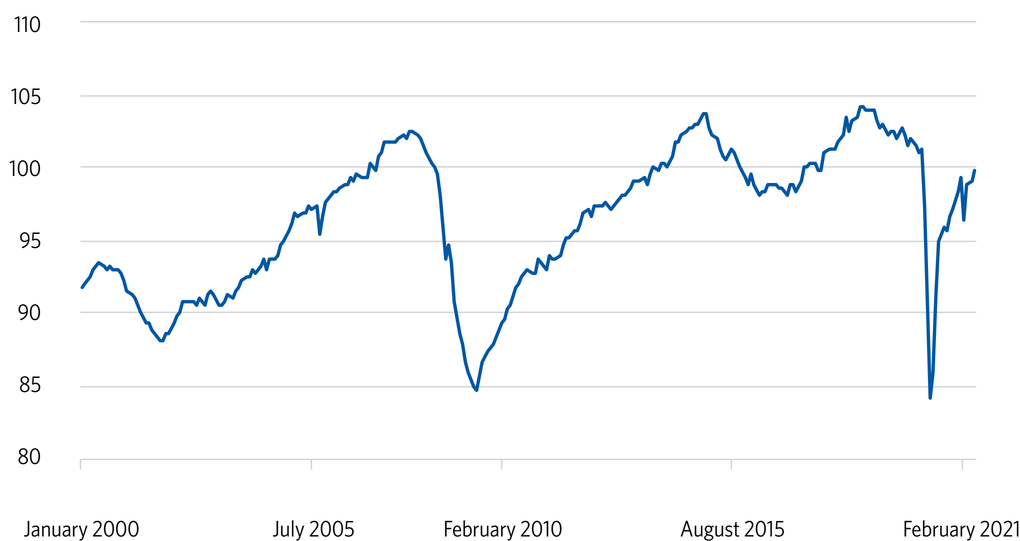
Although the 2020 recession was severe, the economy quickly rebounded. Much of the fall in real income was caused by a precautionary shutdown of productive factors. As Covid-19 is receding, so too is the shutdown of these factors.

At the beginning of the Covid-19 lockdowns, Jerome Powell was concerned about the possibility of deflation and subsequent destabilization of financial markets. He responded by expanding the Federal Reserve's balance sheet from a value of approximately $4.2 trillion to greater than $7 trillion. At its current pace of growth, the balance sheet will pass $8 trillion in the next 1 to 2 months. Most of this expansion has been supported by purchases of U.S. debt and mortgage-backed securities.

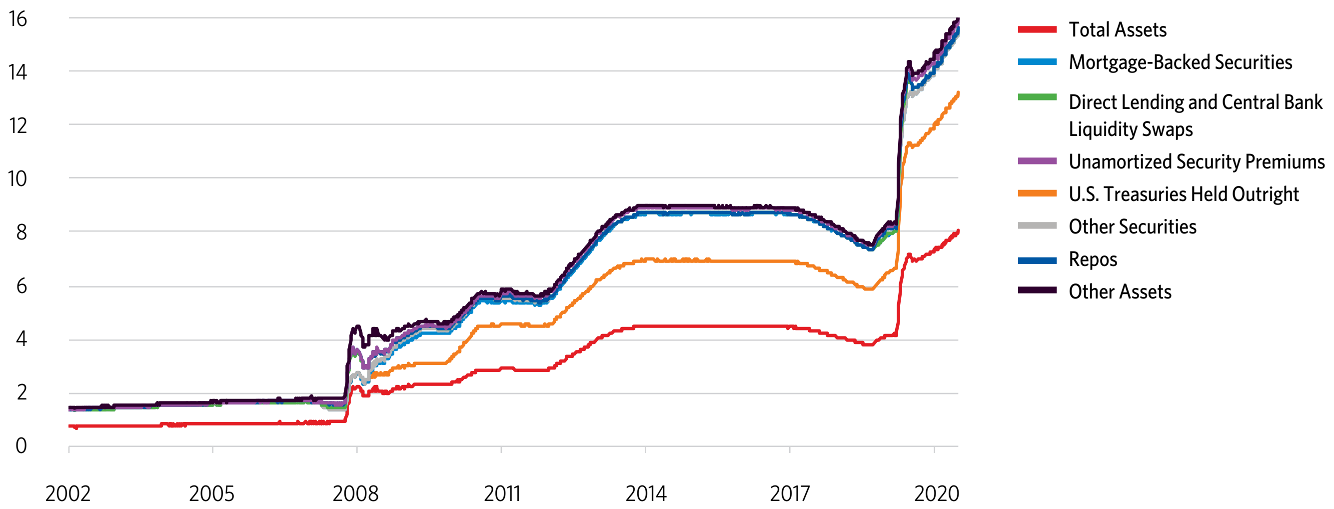
There are good reasons to be concerned about the prospect of inflation. So far, inflation and inflation expectations have only increased modestly. Some prices, though, have been very responsive to support provided by the Federal Reserve.

Over the last year, the Federal Reserve has continued to accumulate mortgage-backed securities. It now holds $2.25 trillion worth of mortgage debt. In the 4th quarter of 2020, there existed $16.78 trillion of mortgages in the United States. We should not be surprised that the price of many commodities have been rising over the last year, especially the price of inputs for construction of new homes. The price of lumber and wood products have more than doubled since April 2020. Many other commodities are following this upward trend. Reflecting this, the producer price index for all commodities has increased by more than 10% over the last year. As we should expect, rising prices of goods used in the early stages of production processes are picking up the inflationary effects of expansion first.

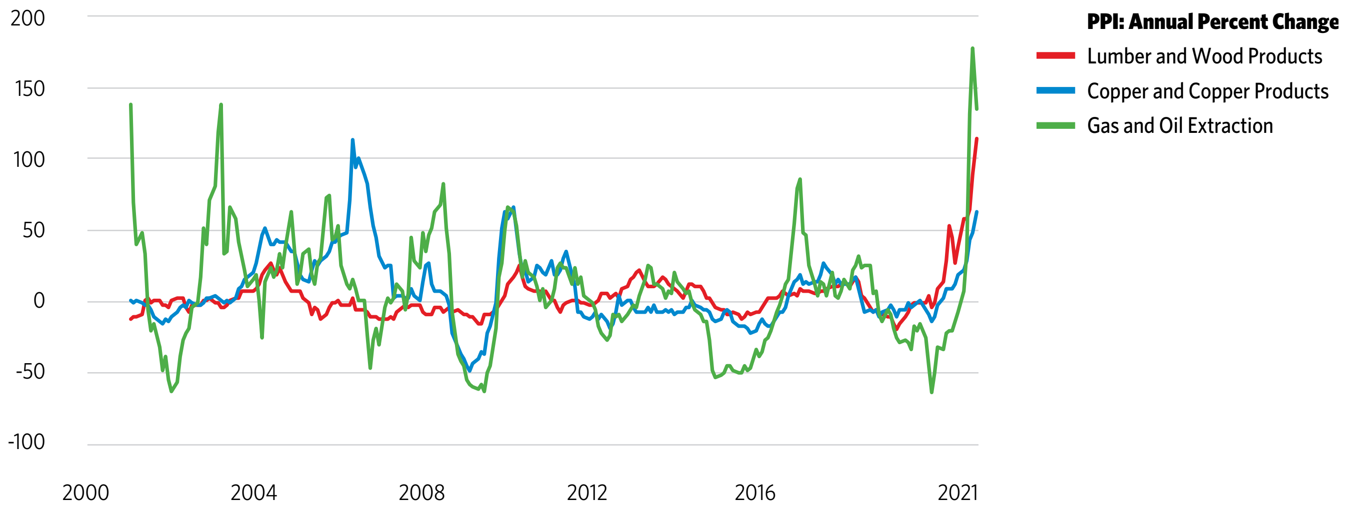
Industrial Production Index



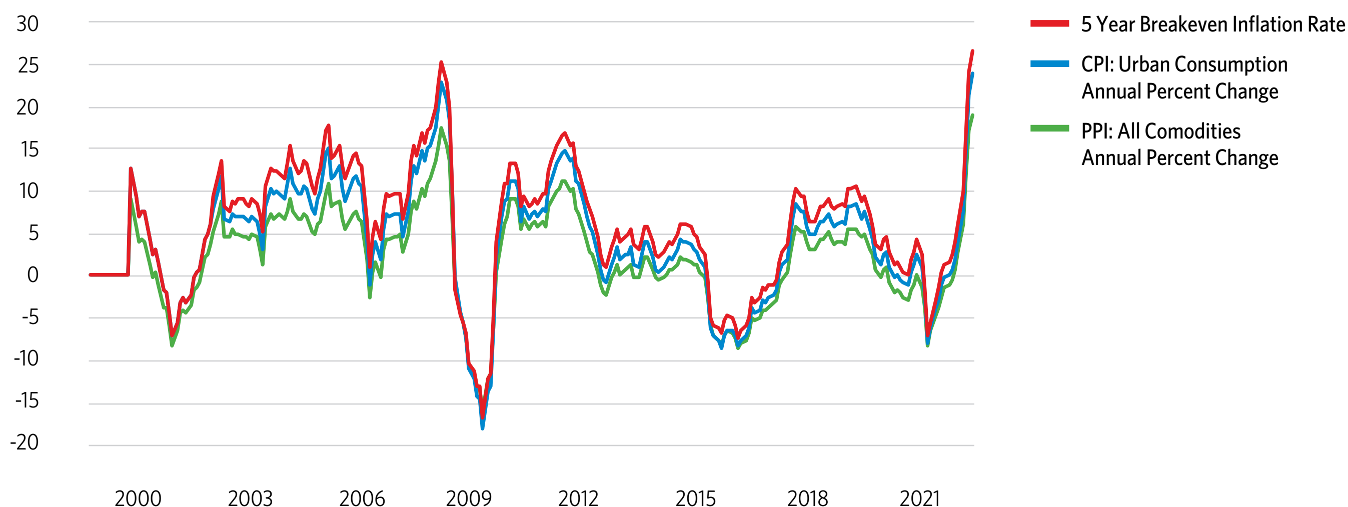
Federal Reserve Balance Sheet: Assets



Annual Percent Change of Producer Price Index Components



Inflation Measures



Two questions concerning inflation are yet to be resolved: **1.** will the price of these primary inputs continue to rise and **2.** will rises in these input prices translate to a rise in the general level of prices? So far, input prices have not pushed to a level that, on their own, justify expectation of rates of inflation, say, in the double digits. Rising prices seem to be drawing resources into production, precisely the goal of the Powell-led Federal Reserve. If prices continue to rise at similar rates over the summer, greater concern will be merited.

Industrial production is not far from its pre-recessionary highs. As the Industrial Production Index returns to its old highs, increases in total expenditures are more likely to translate into increases in prices rather than increases in the real level of production. If this turns out to be the case, the rise in commodity prices will not be a blip, as they were leading into the 2008 crisis, and the prices of final goods and services will rise in response to the rise in the cost of inputs driven by an increase in total expenditures.

So far, price increases of inputs are not outside the bounds of recent precedent. Even the price of lumber experienced similar increases during the early 2000s. A jump in the producer price index in 2008 was followed by a collapse as the nature of the recession became clear in October of that year. One factor is concerning as the current recovery gains steam: the quantity of money in circulation as measured by M2 has been surging for the last year, a factor not present in past crises in the last several decades. Since expectations were depressed, the increase in M2 was an indication of higher savings rates, owing largely to expansionary fiscal policy in the form of stimulus payments and expanded unemployment benefits. We should expect that as expectations improve, at least a portion of these saved funds will be dedicated to consumption or to investment as returns to investment rise, thus increasing velocity of M2.

This might not seem to be an obvious problem since, over the last decade, the velocity of M2 has been collapsing. The main reason for this has been stricter lending regulations imposed by Basel III. Specifically, the liquidity coverage ratio acts as a quasi-reserve requirement that limits the level of riskier investments that banks may take in proportion to less risky, more liquid assets. These regulations were mostly implemented across the last decade and are responsible for limiting the amount of lending by banks. As economic recovery continues, however, it is not unreasonable to expect that velocity of M2 will also move closer to its pre-Covid levels. Even a recovery of velocity by 10% —less than half of the fall since the start of the crisis— would significantly lift inflation and, consequently, nominal interest rates. Higher rates may create feedback driving further inflation.

Many investors have let their guard down with regard to inflation. Popular belief is that the Fed has inflation under control. The Bernanke framework that persists to this day has succeeded in preventing expansion of the Federal Reserve's balance sheet from generating inflation. For the

first time since the framework's implementation, however, Federal Reserve policy is not erring on the side of caution. Monetary policy is intentionally supporting fiscal policy and supporting levels of indebtedness from the Federal government that are unprecedented. The result has been an explosion of M2 that increases the risk of inflation. This fiscal expansion may also aggravate confidence in the soundness of U.S. fiscal policy and, consequently, in the U.S. dollar. It is testing investor willingness to shrug off persistently elevated levels of indebtedness. There is a fair chance that policymakers will succeed. But, for the possibility of success, they risk a monetary-fiscal crisis.

Annual M2 Growth Rate

M2 Velocity

Monetary Control
Central Banks Today

Alexander William Salter

Most wealthy countries today have central banks. And most of these central banks operate discretionarily. What this means is that monetary policymakers have significant latitude to determine the course of monetary policy. Although monetary policy is crafted using sophisticated economic tools, ultimately any policy decision in a discretionary regime is a judgment call.

Defining monetary policy is nontrivial. The definition I prefer is changing the money supply to affect macroeconomic variables, such as inflation or unemployment. The trouble is, as we'll see shortly, on this definition it is unclear that much of what central banks have done since the 2008 financial crisis qualifies as monetary policy. Another definition might be whatever central banks do to affect macroeconomic variables. This would capture recent policy innovations, but in my view—and in the view of most practicing monetary economists before the 2008 crisis—this definition is too broad. It includes policies which are not truly monetary.

From the 1980's up through the end of the 2000's, monetary policy in the United States was pretty straightforward. If the Federal Reserve were concerned by a looming recession, it would engage in *expansionary* policy. This means it would create new money and use it to purchase assets, usually short-term government bonds, in the secondary market. The investors who sold their bonds to the Fed now have credits on their bank accounts. This increases the total reserves in the banking system. The banking system responds by increasing financial intermediation: loaning out the new money. As it's channeled into productive investments, the new money increases the demand for goods and services, which lessens the risks of recession. The result would be higher employment, but also higher inflation, as prices rise throughout the economy.

Contractionary policy worked the opposite way. The Fed would sell bonds, retiring the money it received from circulation. (This was almost always done digitally. Don't think of destroying physical currency units; think instead of deleting balances from a bank account.) Bank reserves decrease; financial intermediation slows down. The Fed might enact contractionary policy if it were worried about overly high inflation. The slowdown in demand-side economic activity means prices would rise more slowly than before (disinflation, the usual result), or even fall (deflation, although this almost never happens in practice).

However, there's been a big change in how the Fed conducts monetary policy since the 2008 crisis. Under the new system, the Fed does not attempt to change macroeconomic variables by changing the quantity of reserves in the banking system. Instead, the Fed has switched to using one of its administered interest rates—the rate paid on banks' excess reserves held in their accounts at the Fed—to conduct monetary policy. The original idea behind the Fed was that it would be a quasi-clearinghouse, or bankers' bank. It still retains some of these features. Member banks of the Federal Reserve System have their own bank accounts, which they keep at the Fed. The Fed can pay banks interest on their deposits, at the Fed's discretion.

In the aftermath of the turmoil that ripped through markets in 2008, the Fed asked and received from Congress permission to pay interest to banks who held greater deposits at the Fed than the statutorily required minimum. By changing this administered (meaning non-market) rate, the Fed can change the incentives for banks to engage in financial intermediation. In other words, there is no longer a direct link between the total quantity of bank reserves and overall economic activity, as well as the macroeconomic variables that serve as snapshots of that activity.

Under this new system, if the Fed wants to enact expansionary policy, it lowers the rate paid on excess reserves. This reduces the incentive for banks to hold reserves at the Fed (they are getting paid less), and increases the incentive to engage in financial intermediation (other things they can do with the money have a comparatively higher payoff). Correspondingly, if the Fed wants to enact contractionary policy, it raises the rate paid on excess reserves. This increases the incentive for banks to hold reserves at the Fed (they are getting paid more), and reduces the incentive to engage in financial intermediation (other things they can do with the money have a comparatively lower payoff).

How much does this change in the Fed's operating framework matter? As it turns out, it's a big deal. We need to remember the Fed's awesome power: it has a monopoly on the production of base (alternatively, narrow) money, which is the economy's most liquid asset. It can literally create money out of thin air. Anybody at all familiar with the logic of politics can see this power lends itself to abuse. Under the old monetary policy framework, however, there were immediate costs to misusing this power. If the Fed were to succumb to politicians' influence, running the printing presses to satisfy a political interest group, the result would quickly be higher-than-desired inflation. The Fed would be forced to scale back. Now, however, the link between expansionary monetary policy and undesirable outcomes, such as higher inflation, is much weaker. The Fed can print money, purchase whatever assets it wants, and then prevent those purchases from having undesirable macroeconomic consequences by raising interest payments on excess reserves.

What this means is that the Fed now has a much higher degree of freedom to *preferentially allocate credit*. We saw this process start during the 2008 crisis. Rather than act as a responsible lender of last resort, the Fed tried to support the prices of specific assets, such as the now-infamous mortgage backed securities. It also made emergency loans to politically advantaged banks, which were not justified by the fundamental solvency of those banks. The Fed continued to abuse this power in responding to Covid-19. In the more recent case, the Fed made direct loans to *non-financial* organizations, including small- and medium-sized businesses, large corporations, and state and local governments. Although the magnitude of these policies is not yet large—these unconventional asset purchases are still a very small fraction of the Fed's balance sheet—a dangerous precedent has been set. In the event of market turmoil, the Fed evidently feels comfortable not only being a *liquidity provider*, but also a *credit allocator*.

In other words, the Fed has stopped engaging solely in monetary policy. It is now doing *fiscal policy* as well. This mandate creep should trouble everyone who cares about the rule of law. When the Fed's monopoly prerogative on money creation is used not for benign macroeconomic purposes, but in the service of fiscal politics, the economy will atrophy. Growth will slow down as scarce credit is allocated by politics, not profit. The Fed will become a less effective agent for fighting macroeconomic downturns. The problem is that the Fed's new operating framework presents too many opportunities for elected officials and bureaucrats to meddle in affairs beyond their competence.

Now that the supply of reserves in the banking system can become arbitrarily large, it's much easier to engage in fiscal policy masquerading as monetary policy. Charles Plosser, a respected macroeconomist and former president of the Federal Reserve Bank of Philadelphia, summarizes the problem: *Once the demand for reserves is satiated, there is no limit, in principle, to how big the [Fed's] balance sheet or volume of reserves can be. A large balance sheet unconstrained by monetary policy is ripe for abuse. Congress and an administration would be tempted to look to the balance sheet for their own purposes, including credit policy and off-budget fiscal policy.*

This is why the definition of monetary policy matters. If monetary policy just means *whatever central banks do*, then the Fed's activities over the past decade qualify. But if monetary policy is supposed to be liquidity-focused—if the Fed is supposed to provide markets a foundation for allocating resources, but not itself allocate those resources—then the Fed has crossed the Rubicon from monetary policy to fiscal policy. It's supposed to be the people's representatives, in Congress assembled, that conduct fiscal policy. The Fed engaging in this task is a major breach of established macroeconomic policy norms.

History shows we can't trust central banks to stick to their mandates. Like all political organizations, they want to increase their power. Unfortunately, there's no reason to think that an increasingly active central bank will better serve the public. As we've seen since 2008, the opposite is at least as likely. While this is true of all central banks, it is particularly evident in the case of the Fed. It is not simply that the Fed is getting worse at fighting recessions. It's that the Fed's operating framework systematically tends towards the abuse of life, liberty, and property. If we want to fix this, we need to take a much closer look at the relationship between money and freedom. Only if we understand this relationship, philosophically, economically, and historically, will we be in a position to fix what's gone wrong with our monetary institutions.

Inflation Is a Dangerous Way to Get Rid of Debt Burdens

Richard M. Ebeling

Suppose you lent someone $100, and when they paid you back they only handed you, say, $99 or $80. Would you consider the borrower to have kept his promise and contractual obligation? Or would you think that he had cheated you out of a part of the money you had lent him in good faith? Well, there are those who say that doing so is just fine, if it's done through price inflation so the borrower repays the lender in depreciated dollars.

Binyamin Appelbaum, who makes this argument, is the lead writer for *The New York Times* on financial and economic affairs. He approaches economic and social policy issues from a consciously *progressive* perspective on the regulatory role and redistributive responsibility of the U.S. federal government. Indeed, he is so *progressive* in his thinking that in a recent article on the opinion page of *The New York Times*, Mr. Appelbaum made it clear that he considers FDR's New Deal to be, well, almost socially *reactionary*.

The New Deal was enlightened government reform by men in government for men out of government, and designed to make it easier for the *little woman* to stay at home rather than enter the world of *man's* work. Equally *backwards*, Roosevelt's policies did not mandate that the private sector had to provide paid family leave or paid sick leave. How *unprogressive* for Roosevelt to presume to leave such questions and issues to the people themselves, based on marketplace voluntary association and agreement.

Wanting Government to Do So Much More, and More

True political enlightenment is to use the threat of government regulatory force to make people do what *the enlightened* know to be right and better for *the people*, than those people themselves. Some might consider such political paternalism to be examples of arrogance and hubris on the part of those in political authority (and by those who are advising them) to presume to dictate how people are to live and work and interact. But not Mr. Appelbaum.

He is absolutely delighted that Joe Biden has such big budgetary plans to rectify all the policy blinders and inadequacies that even past *progressive* Democratic administrations have failed to advance and implement. Government will subsidize more of parents' child care costs, and the caregivers of such services will be boosted with more government-insisted upon wages and benefits. Plus, government will more widely subsidize the expense of people staying home from work to care for sick or elderly family members.

In an earlier opinion piece, Mr. Appelbaum was equally delighted with the widened definition of *infrastructure* to be found in Joe Biden's spending agenda. He said, *When we define infrastructure, we are asserting a public responsibility to make certain things possible. Infrastructure is the stuff people don't have to worry about.* Many people may think that infrastructure means things like roads, bridges, a dam, or a dredged harbor, or maybe a lighthouse. But that would clearly show that any such person was not enlightened and *progressive* enough in his thinking. (See my article, *Biden's 'Democratic' Agenda of Paternalism and Planning*.)

What Joe Biden and Binyamin Appelbaum mean by infrastructure is to provide *the means to address the inequalities of wealth, health and opportunity plaguing our society,* which include educating the young, caring for the old, planning the physical environment in the face of *climate change*, and directing and subsidizing the ability for *people to travel in electric vehicles*. Plus, a wide variety of other welfare redistributive *good things*. One wonders if Mr. Appelbaum has ever seen or imagined a human activity not requiring the paternalistic and intrusive hand of government, or the political financing of it in some way. If he does, he does not talk about it much.

Big Spending Requires Big Taxes and More Borrowing

So how will all of this be paid for? Like Joe Biden, Mr. Appelbaum knows the answer: significantly raise taxes on *the rich*, as well as on big businesses and large corporations. Make them pay their *fair share*, assuming that that phrase means anything other than what people like Mr. Appelbaum think is the right amount according to their own subjective and arbitrary sense of *social justice*. Or in more unambiguous language: *I think you have too much, and I'm going to use government to take it by force, since I know the right uses for it better than you, especially since I know you are a greedy, selfish person who does not care about others the way I do. Thank goodness there are people like me around!*

Joe Biden's fiscal plan calls for increasing those taxes on *the rich* and on corporate America to the tune of $3.6 trillion over the coming years. But as an article in *The Washington Post* (May 28, 2021) pointed out, even if all of Biden's tax increase proposals were to successfully pass through Congress, their effect in raising federal government revenues would not be fully felt for years ahead.

So, the Biden budget proposal assumes a deficit of $1.8 trillion in fiscal year 2022, based on $6 trillion of government spending (or almost one-third of total planned federal expenditures); and there will be budget deficits for many years after that of at least $1.3 trillion per year. Given the current national debt of over $28.3 trillion, if this were to be the pattern of government spending and borrowing over, say, the next ten years, then, in 2031, the accumulated national debt would reach more than $42 trillion.

How will the federal government ever succeed in paying off this debt? Or even covering the interest payments on the accumulated debt? According to the Congressional Budget Office, in An Overview of the 2021 Long-Term Budget Outlook (May 20, 2021), by 2031, almost half of all money borrowed by the government in that fiscal year will be used just to pay the interest owed on the national debt at that time. So, over the next decade the government will be borrowing huge sums of money merely to stay current with the interest payments due on all the years of past deficit spending.

This, now, finally, gets us to the question raised in the opening paragraph about how you might feel if a borrower failed to repay all that you had lent him, and whether you would consider this to be a breaking of a promise and a breach of a loan agreement. This is also why I have taken the time to share Binyamin Appelbaum's views on government spending and taxing and what, clearly, will be needed borrowing to cover all the expenditures that he sees Joe Biden trying to implement, and with which he wholeheartedly agrees.

Inflation to Do *Good Things* and Reduce the Real Value of the Debt

In a series of tweets on May 25, 2021, Mr. Appelbaum, said that,

> *I find the fixation on 1970s inflation puzzling for several reasons. Inflation really wasn't that high, certainly not by the standards of 'historically memorable inflations.' Also, high inflation was good for a lot of people. Student loans disappeared! Home ownership spiked! . . .*
>
> *Describing inflation as the 'primary risk' to the U.S. economy strikes me as overstating the risk of inflation and overstating the consequences. The primary risk to the economy is that half the population isn't vaccinated. Second place is the need for jobs . . .*
>
> *P.S. You know how we dealt with the massive federal debt incurred during World War II? I-N-F-L-A-T-I-O-N.*

It is easy enough for him to say that the *fixation on 1970s inflation* seems *puzzling*, since Mr. Appelbaum was only born in the late 1970s, and would only have any earliest personal memory, no doubt, from when he was a small child in the early 1980s, when Paul Volcker, then Federal Reserve Chairman, put the brakes on monetary expansion and brought price inflation way down. While price inflation as measured by the Consumer Price Index (CPI) followed a rollercoaster path during the decade of the 1970s, it, nonetheless, saw the highest price inflation experienced in the United States since about hundred years earlier during the American Civil War.

The Harmful Effects from 1970s Inflation

In 1975, the CPI rose for a period of time at a 12 percent annualized rate, and then in 1979–1980, it again spiked, reaching an annualized rate of about 15 percent. Mr. Appelbaum may shrug that off, but it means that something that cost, say, $100 at the beginning of the year cost $115 at the end of the year at that annualized rate. Unless someone's income had risen over that period by a comparable 15 percent, that person would have experienced a noticeable decline in their real income. Labor unions at the time pushed for increases in nominal wages for members in an attempt to maintain their average real income with the CPI as a benchmark.

But it needs to be recalled that price inflations never bring about rises in all prices at the same rate and at the same time. Monetary expansions are non-neutral in their impact affect due to the temporal-sequence of how new money is injected into the economy and how that money is spent and then received as higher revenues due to the patterns of the resulting increasing demands for different goods and services in different amounts, at different times, and different places in the economy in the process. (See my articles, *Monetary Inflation's Game of Hide-and-Seek* and *Macro Aggregates Hide the Real Market Processes at Work*.)

Thus, some selling prices may have been running ahead of increases in particular wages in an industry negotiated based on the CPI estimate of a change in the cost of living, while in other instances, money wages negotiated up in a sector of the economy at a higher rate based on that CPI estimate of changes in price inflation may have been more than the particular prices for the specific goods those workers were employed in manufacturing.

For instance, if selling prices for a set of particular goods were increasing at, say, 7 percent, while revised money wages in that part of the economy were only rising at a CPI-based negotiated rate of 5 percent, then employers would have experienced a decline in their real labor costs; however, if in some other sectors or industries CPI-based money wage adjustments were increasing at that 5 percent annual rate, while the selling prices of the goods in those sectors or industries were only rising at a 3 percent annual rate, those employers would have experienced a rise in the real wage in employing labor, thus making it more costly and less profitable to increase or maintain all those at work in that part of the economy.

This is because the *real wage* as estimated on the basis of the employee's general cost of living as calculated by a consumer price index for finished goods as a whole, is not the same as the *real wage* from an employer's perspective who is comparing the money selling price for his own particular good (which may or may not be rising at the same average increase as prices in general), and the money wage that may be insisted upon by employees or negotiated by labor unions based on the CPI.

The Era of Stagflation—Rising Prices and Increasing Unemployment

This is part of the reason behind the period of the 1970s known as the era of *stagflation*; that is, generally rising prices combined with increasing unemployment. This was exacerbated by the downward rigidity of a wide variety of money wages at the time, such that if the rate of price inflation declined, the money wage demands of, especially, unionized workers did not moderate, which further increased the real cost of employing labor from the employers' perspective.

This dilemma was summarized at the time by Austrian-born economist, Gottfried Haberler, in an essay on, *Stagflation: An Analysis of Its Causes and Cures* (American Enterprise Institute, March 1977):

> *It is well known that every prolonged inflation tends to become cumulative and to accelerate. This does, of course, not mean that every creeping inflation must inexorably become a trotting and a galloping one. What it does mean is that to provide the same stimulus inflation must accelerate. The reason is that prolonged inflation generates inflationary expectations: Nominal interest rates rise because borrowers and lenders expect higher prices; unions press for higher wages to protect their members from the expected price rise; businessmen place orders ahead of time and accumulate inventories, etc.*
>
> *Expectations of price rises may even run ahead of reality which is essentially an unstable situation. No wonder that sooner or later a stage is reached where a slowdown of the rate of inflation, or perhaps a mere reduction in the rate of acceleration, leads to unemployment and recession. If most people expect prices to rise at 15 percent and the actual price rise then turns out to be only 7 or 8 percent, the consequence for the economy will be the same as a complete stop of inflation would have had at an earlier stage. This is stagflation.*

Inflation May Benefit Some, But at Others' Expense
Mr. Appelbaum seems quite happy that some student loans during the 1970s were being paid back in depreciated dollars, which reduced the real burden of the debt. But does he forget that for every borrower there is a lender, who, as a consequence, will have received less in real buying terms when the loan was repaid? He, no doubt, thinks of the lenders as greedy "bankers" sitting in their offices, feet up on their desks, wearing a top hat with a cigar in their mouth, like a caricature from the Monopoly game.

But, to use Frederic Bastiat's term, "what is unseen" are all the bank depositors behind that more visible bank officer, whose individual savings have been pooled to extend loans, including to those attending college. Those savers often are families attempting to build up enough, themselves, to make a down payment on a house or a car, or to be accumulating a fund so when their own son or daughter goes off to college they would not have to possibly go as much into debt to pay for their higher education; or household members may be saving for their retirement at some point in their future.

The real value of their savings—and the personal and family financial hopes and dreams behind it—were and are damaged in terms of the real purchasing power that is lost with every percentage rise in the cost of living as time goes by, along with the reduced real interest income to the extent that nominal rates of interest do not rise sufficiently to fully compensate for the general increase in prices. Inflationary premiums added on to nominal interest rates to adjust for expected rises in prices rarely can be formed precisely, particularly due to that non-neutral, *ragged*, manner that monetary expansions generate rising prices in those different ways and at different times.

GEORGE SILVERMAN'S EXPLANATION.

Home ownership rose in the 1970s, but this was partly due to the housing market becoming a casino, in which people bought and sold—*flipped*—property and houses in speculative attempts to make quick profits on a house that could be bought at price *x* one day, and resold not long after at, possibly, price *x+2*. The housing market saw a noticeable retreat once the price inflation came to an end in the early 1980s. And, no doubt, some who bought housing property for real or speculative purposes in the late 1970s suffered losses a few years later, when the inflation expectations frenzy subsided. But this, too, does not seem to enter Mr. Appelbaum's story.

Irrelevant Talk About Vaccinations and a Lack of Jobs
He says that the concerns right now should not be about *inflation* but people not getting vaccinated and *the need for jobs*. Big government spending and expanded welfare programs under the camouflage of *infrastructure* do not get people to get their Covid-19 vaccinations. For most people the vaccine is already either covered by insurance policies or are heavily subsidized. There has been so much confusing and contradictory talk about the efficacy and the possible side effects from the injections that some people just don't believe what they hear in favor of vaccination anymore, or consider that if they are not elderly and do not have a serious *precondition*, there is little need to worry that much if they just wait it all out.

Does Mr. Appelbaum think people should be forced to be vaccinated against the virus? If so, he can consider himself comfortably in the company of the government authorities in the Russian region of Yakutia, in Siberia where mandatory vaccination has been made the local law. Given that he clearly has little problem with government taking one group of people's monies and deciding how others will be made or influenced to live through how those taxed away or borrowed dollars are politically spent, maybe he might apply for U.S.-Yakutian dual citizenship.

Mr. Appelbaum also insists that a far more important issue is the *need for jobs*. But there is no such abstract or amorphous thing called *jobs*. Production and employment are means to ends, the better and fuller satisfaction of the demands of consumers in society for useful and desired specific goods and services. As long as there are unfulfilled ends and wants, there is work to be done. So, willing hands can always find employments. But this will not happen if either governments command people not to work and, therefore, not to earn,

as was done in 2020, due to the government lockdowns and shutdowns; or if you subsidize some people not to work, by sending supplementary government checks that sufficiently add to already received unemployment benefits that it is more financially attractive for some to stay at home than to accept gainful employment at a more market-based wage.

Applying the Inflation Swindle to Eliminate the Debt Burden

Finally, what is to be done with the huge and growing national debt? As far as Mr. Appelbaum is concerned, the answer is simple: just inflate it away through debasement of the currency so the nominal dollars paid back to creditors in depreciated units of money makes its real burden just go away. This type of swindle is certainly not a new one. We can turn to Adam Smith in The Wealth of Nations (1776, Book V, Chapter III: *Of Public Debts*):

> *When national debts have once been accumulated to a certain degree, there is scarce, I believe, a single instance of its having been fairly and completely paid. The liberation of the public revenue, if it has ever been brought about at all, has always been brought about by a bankruptcy; sometimes by an avowed [an admitted] one, but always by a real one, though frequently by a pretended payment. "The raising of the denomination of the coin [debasement of the currency through inflation] has been the usual expedient by which a real public bankruptcy has been disguised under the appearance of a pretended payment.*

It has long been understood that price inflation is a form of tax, under which portions of the citizenry's income and wealth is taken from them through reducing the real buying power of the nominal sums of money held by all those in the private sector and the general public. But, as has also been pointed out many times, while actual taxation is targeted in various ways at defined groups in society, price inflation is indiscriminate in negatively affecting the real incomes earned by various segments of the overall population. It is far more arbitrary and deleterious in its effects on people.

Considering that Mr. Appelbaum is a lead writer for *The New York Times* on financial and economic policy issues, perhaps it would be useful to quote at some length on this issue from one of his predecessors in that staff position at the *Times*. Henry Hazlitt (1894–1993) was, also, from 1934 to 1946 the editorial writer for *The New York Times* on financial and economic issues. Toward the end of his stint in that position, in 1946, he wrote and published his most famous book, *Economics in One Lesson*. He discusses the very inflation that Mr. Appelbaum argues for. Said Henry Hazlitt in a chapter on *The Mirage of Inflation*:

> *If no honest attempt is made to pay off the accumulated [government] debt, and resort is had to outright inflation instead, then the results follow that we have already described. For the country as a whole cannot get anything without paying for it. Inflation is a form of taxation. It is perhaps the worst possible form, which usually bears hardest on those least able to pay.*
>
> *On the assumption that inflation affected everyone and everything evenly (which we have seen, is not true), it would be tantamount to a flat sales tax of the same percentage on all commodities, with the rate as high on bread and milk as on diamonds and furs. Or it might be thought of as an equivalent to a flat tax of the same percentage, without exemptions, on everyone's income. It is a tax not only on every individual's expenditures, but on his savings account and life insurance. It is, in fact, a flat capital levy, without exemptions, in which the poor man pays as high a percentage as the rich man.*
>
> *But the situation is even worse than this, because, as we have seen, inflation does not and cannot affect everyone evenly. Some suffer more than others. The poor may be more heavily taxed by inflation, in percentage terms, than the rich. For inflation is a kind of tax that is out of the control of the tax authorities. It strikes wantonly in all directions. The rate of tax imposed by inflation is not a fixed one; it cannot be determined in advance. We know what it is today; we do not know what it will be tomorrow; and tomorrow we shall not know what it will be on the day after.*
>
> *Like every other tax, inflation acts to determine the individual and business policies we are forced to follow. It discourages all prudence and thrift. It encourages squandering, gambling, reckless waste of all kinds. It often makes it more profitable to speculate than to produce. It tears apart the whole fabric of stable economic relationships. Its inexcusable injustices drive men toward desperate remedies. It plants seeds of fascism and communism. It leads men to demand totalitarian controls. It ends invariably in bitter disillusion and collapse.*

The United States is in dangerous waters if it becomes *general wisdom* and *popular opinion* among public policy analysts and politicians that governments can spend all they want, in any amount, by just running huge annual budget deficits and expanding the national debt because it can all be made to go away through a magician's trick of monetary expansion and currency debasement. It needs to be remembered that the political magician's conjuring does not change reality; he merely succeeds in diverting our attention from what is really going on through a temporary illusion. It does not go away with the longer-term harmful consequences that cannot be made to disappear.

War Of Words Over INFLATION Stirs Questions for the Fed

Judy Shelton

The war of words unleashed in Washington and on Wall Street by May 12's announcement of an unexpectedly high rate of consumer price inflation is escalating by the day.

Legendary hedge fund manager Stanley Druckenmiller had warned on Tuesday in the *Wall Street Journal* that the Fed was enabling fiscal and market excesses by not standing up to the political whims of Congress; he stated on CNBC that the Fed's overly accommodative monetary policies posed a risk to the status of the United States dollar as a global reserve currency.

Refuting such concerns, Paul Krugman asks today in his column for the *New York Times* whether President Biden should scrap his entire economic agenda merely because the spike in consumer prices as reported by the Bureau of Labor Statistics was bigger than expected. *OK, I'm being a bit snarky here, but only a bit,* Mr. Krugman concedes.

Snarky is hardly the word for the crass deprecations he offers in his concurrent newsletter, wherein he notes *a lot of buzz around how the Fed's wanton abuse of its power to create money will soon lead to runaway inflation*. The Nobel laureate dismisses fears of monetary debasement as being anchored in neither fact nor logic but rather attributable to an *infestation of monetary cockroaches.*

What seems to be missing in the debate over whether the inflation number itself is alarming as a bellwether—some were disconcerted when the Fed's vice chairman, Richard Clarida, admitted that it *surprised* him—is the larger question of government competence in steering the economy.

Does it make sense, for a nation founded on the notion of individual liberty, equality under the law, and personal property rights, to allow a government agency to manipulate the value of the currency used by its citizens? Would it be better to have a stable monetary foundation to facilitate free-market outcomes, rather than empower the Federal Reserve to distort interest rates and dilute dollars in the service of government policy?

It's not as if we haven't been here before. The question of whether rules-based monetary stability historically delivers better economic results in terms of increasing middle-class incomes than relying on the discretionary judgment of central bankers has been wholly analyzed and resolved.

In the 2015 Economic Report of the President issued under the Obama administration, a special section describes the period from 1948 to 1973 as the *Age of Shared Growth*—characterized by accelerating labor productivity, falling income inequality, and increased workforce participation.

The report makes little mention of the fact that this period of remarkable growth, which increased living standards across all income levels, coincided with the existence of the Bretton Woods international monetary system under which the U.S. dollar was convertible into gold at a fixed price.

The report does posit that if post-1973 productivity growth had continued at its pace from those previous 25 years, *incomes would have been 58% higher in 2013* and *the median household would have had an additional $30,000 in income*.

All of which should give pause to those who belittle the uneasiness felt by conservatives who fear that compromising monetary integrity not only violates founding principles but also economic rationality. And it's not just conservatives per se, but rather an increasingly larger segment of the population expressing concerns about the wisdom of government officials and the correctness of government policies.

The momentum behind the rise of cryptocurrencies is being fueled by populist aspirations to decentralize finance in the name of democracy—in radical defiance of central bank polices that are perceived as favoring big investors, big business, and big government.

Even as the Fed appears to be signaling its willingness to comply with a progressive agenda that would enlist our nation's central bank in efforts to focus on climate change or systematic racism, there is growing skepticism that the solution to such problems is to be found in Fed purchases of Treasury debt and government-backed mortgage securities.

In short, while economists and policy makers bicker about the implications of an inflation number that raised eyebrows for some, bile for others, and now has become a marker for questioning the infallibility of government management of the economy, most Americans are left wondering what it means for their own financial well-being and prospects.

Some may even start questioning whether Fed officials' insistence that being *patient* about tolerating higher inflation *for some time* until there is *substantial progress toward our goals* provides meaningful forward guidance.

Problems of Federal Reserve Policy—and How to Solve Them

Thomas L. Hogan

The U.S. government is constantly expanding its influence on the economy, including the monetary system. With inflation on the rise, political tensions high and congressional dysfunction in Washington, D.C., what should we expect from our central bankers and monetary institutions? How can we get monetary policies that will benefit ordinary Americans?

A new book tackles these questions with vivid historical examples and surprisingly uncommon *commonsense* economics. *Money and the Rule of Law* by Peter Boettke, Alexander Salter and Daniel Smith discusses the difficulties of central banking, especially when decisions are made according to subjective discretion rather than stable, predictable rules.

As the central bank of the United States, the Federal Reserve (the Fed) manages the supply of money in the economy, the most important determinant of short-term economic outcomes. While many economists love the idea of the federal government running the monetary system, Boettke, Salter and Smith explain a number of difficulties faced by central bankers that can make the economy worse, not better. As the authors describe, *Discretion in monetary policy is the reason central banking fails to live up to its lofty promises of economic and financial stability.*

Knowledge Problems and Political Incentives

One problem with central banks is that governments simply do not have the information or knowledge necessary to run a complex economy. The Fed uses aggregate statistics that may not represent underlying trends or up-to-the-minute changes affecting businesses and consumers.

Even if the data were accurate, there is no agreed-upon theory the Fed could use to manage the economy. How should it balance inflation and unemployment? How should it respond to supply-side shocks or to asset price booms? These questions cannot be resolved with economic science, meaning the Fed's actions are, at least to some degree, purely guesswork. And because the Fed's economic decisions vary depending on who the central bankers are, they are difficult to predict, increasing economic uncertainty and instability.

A second well-known problem is that government officials face political incentives. The authors provide many examples of Fed decisions driven by political motives instead of sound economics. These include poor monetary policy decisions, such as Fed Chair Arthur Burns' capitulation to President Richard M. Nixon's request to boost the economy in an election year, as well as the repeated accommodation of federal government debt and caving to special interests and powerful banks.

Historical Challenges

Historically, the Fed's actions have increased the severity of economic downturns and financial crises. During extraordinary circumstances, the Fed has ignored its legal limitations and traditional guidelines in favor of whatever seemed viable at the time. For example, many economists, including former Fed Chair Ben Bernanke, agree that the Fed's mistakes of the 1930s turned what would have been a regular recession into the Great Depression.

Boettke, Salter and Smith argue that the same thing occurred in the 2008 financial crisis. Ignoring traditional economic guidelines, the Fed's emergency lending programs bailed out insolvent banks, increased risk in the financial system and magnified the credit crunch. Unconventional monetary policies of quantitative easing and paying banks interest on their reserves still cause economic distortions today.

There are simple ways to improve upon the discretionary, and often disastrous, decisions of central bankers. First, discretionary policy should be consistent and predictable so that consumers and businesses can plan for the future. Second, monetary policy decisions should be based on simple rules that are well known but also *robust*, meaning they can be effective without requiring discretionary actions even when things go wrong. Third, rules should be formalized to the greatest extent possible to form a *monetary constitution* that governs the monetary system by the rule of law, just as the legal system provides a foundation for commerce.

These guidelines would provide a stable and predictable monetary system resistant to the mistakes and politics that have plagued discretionary central banking. Although these lessons may seem clear to the casual reader, they are strongly contested by central bankers who prefer to maintain their discretionary powers.

To stabilize the economy, informed citizens must study the faults of discretionary central banking and call for reforms to protect against them. *Money and the Rule of Law* accomplishes the first goal. The second is up to us.

The Horrors of Hyperinflation

Robert E. Wright

Some people thought serious inflation would follow the bailouts of 2008-9. It didn't, so some assume prices will remain in check again now. A false cry of wolf in the past, however, doesn't mean that the wolves of inflation do not stalk the economy this time. As described below, macroeconomic and policy conditions are very different today and that's important because I do not compare high levels of inflation to wolf pack attack lightly.

Financial markets suggest that the future path of prices remains unknown. Bond yields remain low by historical standards but frothy investments in cryptocurrencies and nonexistent art suggests that some investors want to buy anything other than bonds, which will drop in price if inflation, and hence nominal interest rates, rise. The buoyant real estate market also suggests that trouble looms as real estate tends to increase in price along with inflation, especially where rents can be easily and quickly increased.

Policymakers need to ask, what is worse, hyperinflation or global climate change? Hyperinflation or social injustice? Hyperinflation or war? The answer in each case, hands down, is hyperinflation, by which I mean rapid and accelerating increases in prices caused by new money growth that outstrips new money demand. Ironically, a bout of hyperinflation would probably accelerate global climate change, exacerbate social injustice, and increase the likelihood of major war.

In short, the federal government should be focusing on the real existential threat to the nation, runaway prices, not wasting resources on partisan political issues, like treating unarmed trespassers as *insurrectionists*.

Inflation, as measured by the Consumer Price Index (CPI), is currently running at *only* about five and a half percent and AIER's Everyday Price Index is up *just* 6.5 percent over the last year. Both remain a far cry shy of a hyperinflationary spiral where expectations about rapidly rising prices cause prices to rapidly rise as consumers spend cash as quickly as possible and workers push for ever higher nominal wages to avoid prolonged decreases in their real wages. But why is inflation gaining momentum now and will any economic or political forces check it before it spirals out of control?

Following the global financial crisis of 2008, government policies and socioeconomic conditions were not conducive to rapid economic growth. Considerable uncertainty about financial and health sector reforms made many businesses cautious and the reforms that eventually passed, especially Dodd-Frank and the Affordable Care Act, proved nettlesome due to their size, complexity, and slow phase-in. Taxes were relatively high and many innovators feared what the Obama administration might do next.

Unsurprisingly, then, economic growth was pretty anemic for almost a decade, so increases in what macroeconomists call aggregate demand were tame as well. Moreover, much of the new money (purchasing power) that the Federal Reserve (the Fed) created in response to the 2008 crisis stayed in the banks, which were happy to earn from the Fed a small but safe return on a cash cushion called excess reserves. So upward pressure on prices proved much lighter than some feared.

During the Trump administration, however, the business environment improved markedly as taxes and regulatory burdens decreased. Unemployment dropped to record lows but the Fed kept its policy of interest rates at historic lows, so upward pressure on prices was building when Covid hit and governments across the world responded by shutting down economic activity.

The world is just emerging from those monstrous policies and pent-up consumer demand, similar to that experienced in the late 1940s after a decade of depression and world war, is being felt. Alone, those circumstances could collude to cause double-digit inflation for a year, or two, or three.

In addition to those pressures, the national government seems hellbent on spending as much money as possible as quickly as possible. Projected deficits are, in real terms, the largest in peacetime history and approach those incurred to fight World War II. They could tip the economy into a serious bout of inflation, to which policymakers—the same policymakers who thought they could *fight* a virus—might respond with price controls like those that caused widespread shortages during the Nixon administration.

The price controls failed but Paul Volcker (1927–2019) eventually caused a recession to stop America's Great Inflation (1965–1982) by dramatically raising the Fed's policy interest rates/cutting money supply growth. Could the Fed

do the same today, if necessary? Yes. Would it? Not without hurting a lot of poor people, regardless of the color of their skin, so pretty much count even-numbered years completely out.

Political considerations aside, the federal government would certainly want a say in monetary policy too. The US government owes a lot of money to a lot of people, including many foreign governments that will not be amused if Treasuries become worthless. Moreover, most of the national government's borrowings are at short maturities, so it has to pay off/refinance some $13 trillion of debt within the next four years.

If inflation surges, so too will nominal interest rates and hence the government's debt burden, i.e., the proportion of the federal budget needed to make interest payments on the national debt. As that burden increases, so too will pressure to keep creating new money to help the government to pay its bills.

If, like The Atlantic, you do not think that hyperinflation can happen in America, you need to read up on your monetary history. The New England colonies and the colonial Carolinas experienced out of control inflation, as did the new nation itself during the Revolutionary War. Hyperinflation also gripped the Confederacy and its awful effects helped to keep the South impoverished for a century after Appomattox.

Hyperinflations also ruined numerous other countries and in some, like Zimbabwe and Venezuela, inflationary spirals continue to impose significant socioeconomic costs, especially on the poor, today. The hyperinflation in Germany that began exactly a century ago is perhaps the most infamous because it helped to foster political extremism, including National Socialism.

High inflation is not to be trifled with because it rips economies and societies apart at the seams, destroying some forms of life savings (e.g., bank accounts, bond funds, and life insurance) while enriching debtors and the politically well-connected. Incentives to produce plummet as aggregate demand sags along with declining real incomes and unpredictable fluctuations in relative prices.

Such carnage may seem abstract but it was very real to the middle class Germans who had to prostitute their daughters to survive the worst periods, when German paper money became more valuable as toilet paper or wallpaper than as a medium of exchange.

The Biden administration, though, implicitly assumes that combating global climate change and fostering what it considers to be social justice are more important policy goals than steering well clear of dollar collapse. It is very wrong about that because hyperinflations end only one way, the imposition of hard budget constraints through the adoption of a new monetary system based on precious metals, a stable foreign currency, or a currency board. Often, a new regime or constitution also must accompany the monetary reform in order to make the government's commitment to stop printing money and lying about new money creation more credible to market participants.

In other words, if the price level rises too much too quickly, current illusions about Modern Monetary Theory (MMT) and costless budget deficits will be shattered by reality. America's national government will have to go onto a real consumption basis, meaning every bit of new spending will have to come out of taxes already collected, not future taxes. Epic political battles will result but even if Progressives win them, the government will face difficult tradeoffs between funding projects like the Green New Deal or race reparations on the one hand, and national security and economic growth/tax cuts on the other.

Moreover, during and after a period of high inflation the United States would be more vulnerable to military attack than it has been since the height of the Cold War. China, Iran, North Korea, and/or Russia would almost certainly try to take advantage of its weakness, kicking it, and/or its close allies, when down.

By driving hundreds of millions of people to the edge of economic desperation, hyperinflation would also defeat attempts to reduce carbon emissions or increase racial justice because acquiring potable water, food, and fuel would top most Americans' quotidian concerns, while adoption of electronic vehicles, ESG investment funds, or Critical Race Theory curricula would sink to the bottom of their concerns. When the economy hits rock bottom, trees will topple in rural and suburban areas while people will find urban areas uninhabitable. What happens when they migrate out in search of food and water is unclear, but likely ugly if the treatment of Arkies and Okies during the Great Depression is any indication.

Governments have few universally accepted goals. National defense, protection of property, and stability of the unit of account are arguably the three most important because all else rides on them. Hyperinflation destroys all three, so any serious risk of hyperinflation is simply unacceptable from a policy standpoint. The national government needs to improve its fiscal and monetary policies today, before it is too late.

Sound Money Still Matters

Peter C. Earle

Let the record reflect: sound money still matters. The tremendous fiscal, monetary, and social interventions throughout 2021, in addition to what appears to be the long-posited return of inflation, are fueling a resurgence of interest in gold and silver. Cryptocurrencies, farmland, and less conventional hedges have led the way, but a handful of developments suggest that the *barbarous relic* and its cousins are returning to mainstream attention.

Most recently, the State of Tennessee announced that it is considering setting up a gold depository. On Wednesday, June 2nd, the two measures (House Bill 353 and Senate Bill 279) passed unanimously through their respective committees with voting tallies of 90–0 and 32–0. A report on the feasibility of doing so, as well as steps which would be required, is due on or before 1 January 2022.

Currently the only US state with its own gold depository is Texas. The fully-insured, privately managed Texas Bullion Depository opened in Leander, TX in 2019. A hoped-for wave of other states following suit has not yet materialized, but Tennessee may lead a wider contingent. (Oklahoma investigated setting up a bullion depository in 2016 but has not yet done so.)

A state facility housing precious metals would have two primary benefits: first, in the event that Tennessee sought to hedge state pensions and other financial resources against an inflationary draft, it could do so without paying an out-of-state firm. And second, concerns about gold leasing and other practices would be assuaged: possession is, after all, nine-tenths of the law.

The April CPI YoY (year-over-year Consumer Price Index) of 4.2% has revived long-dormant inflation fears, although whether and to what extent more inflationary pressures will emerge remains to be seen. The 4.2% increase was the largest 12-month increase since between Sept 2007 and Sept 2008, when it was 4.9%.

The formation of state bullion depositories comes at a time where a number of nations are entering the gold markets to build reserves or repatriating bullion and bars held abroad. Gold hit an all-time high price of $2,051.50 on 8 August 2021, and has recently been trading between $1,700 and $1,900/ounce.

State depositories of gold, silver, and other precious metals could foster competition in money as well. They could facilitate payments in metals ranging from retail to institutional through the creation of depository receipts, gold/silver/etc-funded checking accounts, or debit cards. By doing so, what is currently a clumsy, costly link between saving/investing in precious metals and transactions would become nearly seamless. (That disconnect, incidentally, is a source of much of the preference for Bitcoin and other cryptocurrencies over gold and silver.) By making precious metals a more integral and understandable part of citizens' lives in a period that may feature rising inflation, a movement for sound money is likely to become more widespread.

State depositories are a single facet of this slow but clear shift. Five US states currently impose no sales taxes on gold or silver transactions: Alaska, Delaware, Montana, New Hampshire, and Oregon. Another 34 use tax exemptions on precious metal coins and bullion. It would not be especially surprising, if trends continue, to see other states follow the example set by Utah in 2011 when it recognized gold and silver coins as legal tender.

The Sound Money Index compiled annually by the Sound Money Defense League tracks 12 indicators that gauge the degree to which acquiring and using precious metals is permitted in each state. (For the TLDR crowd: in 2020, Wyoming, Texas, and Utah were the most gold friendly; New Jersey, Arkansas, and Vermont the least so.)

On June 10th, the US Bureau of Labor Statistics will release year-over-year CPI data for May 2021. According to Bloomberg current predictions range from 4.2% to 4.9%, with a median of 4.7% and an average of 4.6%. If the current inflation subsides (or doesn't increase as much as some predictions hold), will the renewed interest fizzle out? Possibly. But considering the acceleration of fiscal recklessness and the traction of concepts like Modern Monetary Theory, a safer bet is that the road toward sound or sounder money will be one for which despite an occasional step back, there will be two or three forward.

Why You Should Include Charity In Your Will

Andrew Palmer

There is a common misconception that only the rich need to make a will. That is not true. A will eases the pain of your passing on those you leave behind, and without a will, regardless of your personal wishes, state laws will determine the transfer of your estate.

There is an even bigger misconception that only the super-rich leave money to charity when they die. That's also not true. The fact is that most gifts by will, (bequests) are made by everyday people who want to have a lasting, positive impact on their community.

Without this type of generosity, many charitable institutions couldn't continue their missions into the future. Non-profits need our support to do their good work.

Here are four reasons why you should include a charity in your will:

A Gift By Will Is Easy To Make
A bequest is one of the easiest charitable gifts to make. It is simple to implement, and easy to change should you ever need to. You can give specific property or designate a dollar amount or a percentage of your estate. You can also designate a non-profit as a beneficiary of your retirement plan or life insurance policy.

A Gift By Will Does Not Alter Your Current Lifestyle
Making a bequest is a way of demonstrating your commitment to the future of the institution you love that doesn't affect your current asset balance or cash flow. There are no substantial costs, and the gift can easily be modified to address your changing needs.

A Gift By Will Can Change Lives
Non-profits improve our lives every day through their dedicated work, community, and stability. A bequest can help your best-loved charity further its mission and values. It can continue making a difference for generations to come.

A Gift By Will Creates A Lasting Legacy
Including a non-profit in your will is a great way to bring dignity, meaning, and purpose to a life well-lived. You can demonstrate your commitment to the future of the institution you love, and better yet, a bequest can allow you to give to an institution that you may have always wanted to support, but were unable to during your lifetime. Creating a legacy with your gift ensures that you, and your values, will live on.

You don't have to be wealthy to make a difference. Whoever you are, whatever your situation, you can help make a better world by including a charity in your will.

AIER **events**

The Bastiat Society and the Role of Business in a Free Society **with Brad DeVos**

September 7
Charleston, SC

Join AIER's Bastiat Society program in Charleston for an in-person discussion with Brad DeVos, Interim President and Director of Programs at the American Institute for Economic Research. DeVos will discuss the history of the Bastiat Society Program, which started as a discussion club in Charleston, and now hosts 200 events each year in 50 cities around the globe.

Market Alternatives to the Federal Reserve System **with Lawrence White**

September 16
Arlington, VA

AIER's Bastiat Society program in Washington, D.C. will host Dr. Lawrence H. (Larry) White, Professor of Economics at George Mason University, for an in-person event. Professor White will discuss the historical evolution of monetary systems, from gold-based currencies to government-controlled fiat currencies and the recent development of market-driven cryptocurrencies.

The Philosophical Fight for the Future of America **with John Allison**

October 13
Raleigh, NC

Join AIER's Bastiat Society program in Raleigh for their inaugural event with John Allison, Retired Chairman and CEO BB&T. Allison will examine the fundamental, philosophic battle between the defenders of classical liberal positions and the statists of all political persuasions.

Bastiat Society Directors Meeting: History of Classical Liberalism

October 17–20
Great Barrington, MA

AIER will host the *2021 Bastiat Society Directors Summit* at our campus in Great Barrington, MA. Chapter Directors from all over the world will gather for a private conference focused on the History of Classical Liberalism. There will also be time to network, share experiences, and learn from fellow chapter directors.

Planned Giving

Each one of us already has a default estate plan—one dictated to us by the government. The government doesn't know who we are; it cares nothing for our achievements, our principles and beliefs, our ethics, or our commitment to our families. In this plan, hard-earned assets can be unnecessarily taxed and heirs can be left with little or nothing.

The only way to make sure that your estate plan reflects your wishes is to design it yourself with competent counsel. Will your legacy be subsumed by faceless bureaucrats as a windfall profit for government programs that you may believe are antithetical to prosperity and justice? Or will it be a responsible transfer of values held dear by the one who earned the money? Make sure that you are the author of your own personal estate plan.

By making a planned gift to AIER—whether it be through your will, charitable trust, or another giving vehicle—you are making an incredible commitment to true freedom, sound money, and private governance. You not only secure your legacy as a champion of free markets, but you ensure that AIER will continue to fight for the principles you hold dear for generations to come.

We are forever grateful for AIER's planned giving supporters who help to ensure that people around the world will always have access to sound economic research, robust education in free market concepts, and practical training from AIER.

Here are some ideas on how to include AIER in your estate plans:

Your Will

If you already have a will, you can generally amend it to create a bequest for AIER and other charities. If you have elected a living trust rather than a will, you can also include AIER and other charities as trust beneficiaries, similar to creating bequests under a will.

Your Retirement Accounts

Retirement accounts—such as an IRA, 401(k), and others—that are left to heirs are double-taxed because (often but not always) they are subject to the estate tax and heirs are also subject to ordinary income tax on what's left. Retirement accounts left to a non-profit like AIER are not taxed at all.

Your Life Insurance

One of the easiest ways to leave AIER in your estate plans is to simply name AIER as a beneficiary of a life insurance plan. Life insurance proceeds, other than when given to a spouse or to a tax-exempt entity like AIER, are generally subject to the estate tax. Therefore, life insurance policies that are no longer needed for financial security are a good choice for enhancing your philanthropic legacy.

Other Giving Vehicles

Several less common giving vehicles are typically used in complex estates, but might be worth consideration. We recommend you speak with your attorney or financial advisor regarding: Charitable Gift Annuities, Charitable Remainder Trusts, and Charitable Lead Trusts.

To get started

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I followed Colonel Harwood for many years and one thing that came through in all of his writing was that he was a great patriot and a strong believer in an honest currency. Having been in the investment business for 48 years, I think Colonel Harwood's teaching is needed even more now than it has ever been. He had a great impact on my thinking.

—**Arnold Van Den Berg**, Longtime AIER Donor

AIER donors understand the importance of AIER's mission and want others to understand too.

For nearly a century, the American Institute for Economic Research has educated Americans on the value of personal freedom, free enterprise, property rights, and sound money. Eschewing dogmatic assertions and party politics alike, AIER seeks to scientifically understand and demonstrate the importance of these principles to advance peace, prosperity, and human progress. We support the research of numerous leading economists and share their findings with policymakers, professionals, educators, and the general public through publications, in-person programs, and online outreach that are each tailored to the needs of these audiences. By strategically articulating and promoting the principles of pure freedom, AIER helps to build the intellectual basis for, and popular consensus around, the expansion of individual rights and market freedom and against the increasing demands for government intervention, central planning, and collectivist policies.

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THANK YOU, BRUCE GORE,

for your innumerable contributions over 38 years. You will be missed.